Chapter Eight: Bidding Method and Lease Terms

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The selection of the bidding method, minimum bid, and term of the lease occurs after all comments and issues on this final finding have been received by the DO&G, considered and weighed. Under AS 38.05.180(f) and 11 AAC 83.100, the commissioner must lease all oil and gas resources by competitive bidding. The Alaska statutes provide a number of bidding methods to the department. AS 38.05.180(f).

(1) a cash bonus bid with a fixed royalty share reserved to the state of not less than 12.5 percent in amount or value of the production removed or sold from the lease;
(2) a cash bonus bid with a fixed royalty share reserved to the state of not less than 12.5 percent in amount or value of the production removed or sold from the lease and a fixed share of the net profit derived from the lease of not less than 30 percent reserved to the state;
(3) a fixed cash bonus with a royalty share reserved to the state as the bid variable but no less than 12.5 percent in amount or value of the production removed or sold from the lease;
(4) a fixed cash bonus with the share of the net profit derived from the lease reserved to the state as the bid variable;
(5) a fixed cash bonus with a fixed royalty share reserved to the state of not less than 12.5 percent in amount or value of the production removed or sold from the lease with the share of the net profit derived from the lease reserved to the state as the bid variable;
(6) a cash bonus bid with a fixed royalty share reserved to the state based on a sliding scale according to the volume of production or other factor but in no event less than 12.5 percent in amount or value of the production removed or sold from the lease;
(7) a fixed cash bonus with a royalty share reserved to the state based on a sliding scale according to the volume of production or other factor as the bid variable but not less than 12.5 percent in amount or value of the production removed or sold from the lease.

Prior to issuing a final finding, the department conducts a pre-sale analysis of economic, engineering, geological, and geophysical data, including the petroleum potential. Much of these data are held confidential under AS 38.05.035(a)(9)(C) and (D). The data are then used to determine the bidding method, minimum bid, and lease term that best achieves the mix of sometimes conflicting state interests. Using standard economic benefit-cost and statistical decision theory, the value of the hydrocarbon resources is determined. The bidding method finally selected is the one the department believes will maximize the economic and physical recovery of the resource, and promote competition among individuals and companies seeking to explore and develop the area.

- The bidding method for the Beaufort Sea Areawide is cash bonus.
- The minimum bid is $10.00 per acre on all tracts.
- There will be a fixed 12-1/2 percent royalty and ten-year lease term on Tracts 40-77, 468-554, and 556.
- There will be a 20 percent royalty and seven-year lease term on Tracts 79 and 80.
- There will be a 16-2/3 percent royalty and seven-year lease term on all other tracts.
- There will be no exploration incentive credits for this sale.

In selecting the bidding method for Beaufort Sea Areawide, the department considered and balanced the following state interests: protecting the state’s ownership interest in hydrocarbon resources, promoting competition among individuals seeking to explore and develop the area, encouraging orderly and efficient exploration and development; and the need to generate revenues for the state.